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Mary L. Cottrell, Secretary
Department of Public Utilities
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Comments of the Department of Energy Resources upon the proposed Expanded 2008 Residential Programs in Energy Efficiency Plans for Electric and Gas Distribution Companies in the Following Dockets: NGrid DPU 08-8; NSTAR Electric DPU 08-10; Fitchburg Electric DPU 08-30; WMECO DPU 08-xx; NSTAR Gas DTE 04-37; Berkshire Gas DTE 04-38; Bay State Gas DTE 04-39; New England Gas (Fall River) DTE 04-42; New England Gas (No. Attleborough) DTE 04-43; and Fitchburg Gas DTE 05-53.

Dear Secretary Cottrell:

This letter contains the summary comments of the Department of Energy Resources (DOER) on the filings made by each of the aforementioned electric and gas utilities on August 15th, 2008, in response to our request of July 16, 2008 for additional support for residential energy efficiency efforts for the 2008 –2009 winter heating season.

Governor Patrick has made curbing energy costs a key goal for state government. Massachusetts residents and businesses face volatile energy prices, subject to dramatic price swings driven by international commodity markets. The best defense against the high cost of fossil fuels today and in the future is curbing demand through cost-effective efficiency measures and diversifying supply through development of new, clean energy resources. Fortunately, the Green Communities Act has made a fundamental change to the electricity marketplace and creates direct competition between supply and demand energy resources to meet demand. The Act establishes a new mandate to procure all cost-effective energy efficiency investments that are cheaper than traditional supply. In addition, efficiency investments can be approved only if they cut energy costs relative to traditional supply.

Within this new statutory framework, DOER expects to see substantial expansion of efficiency investments in order to cut energy costs for residents and businesses. To ensure the success of expanded energy efficiency efforts, DOER will provide enhanced monitoring and verification of utility-sponsored programs as well as new scrutiny of the cost-effectiveness of proposed expenditures. In addition, the Department of Public Utilities' Order on decoupling, **Investigation by the Department of Public Utilities on its own Motion into Rate Structures that will Promote Efficient Deployment of Demand Resources, D.P.U. 07-50-A**, provides mechanisms for utility cost recovery that balance ratepayer interests and shareholder interests to reduce energy spending for all.

The urgency behind the current proceeding comes from the expectation that Massachusetts consumers will face significantly higher prices for energy this coming winter, and that rapid expansion of residential energy conservation, in particular, can be effective in giving relief to these consumers immediately and in the future. The benefits of conservation measures are amplified because they reduce energy spending not only when they are implemented, but for years to come. This is of utmost importance because the coming winter energy crisis, while it could be a shock, may not be a one-time occurrence, but rather represent a new reality of persistently higher prices for fossil fuels across the board.

The proposals for expansion of 2008 energy efficiency programs submitted by the electric and natural gas utility distribution companies must be evaluated on their contribution toward solving the crisis at hand, but also in the context of implementing the new framework for energy regulation provided by the Green Communities Act. We should use the immediacy we feel today to hasten the transition we have already begun toward the more cost-effective energy system of tomorrow.

In terms of the challenge at hand, expansion of 2008 utility programs should make residential consumers and their winter heating needs the priority, but not squander opportunities to move toward lower-cost, higher-efficiency energy use overall. Specifically, expansion of the Residential Conservation Services Program should target winter heating benefits such as weatherization, insulation, and heating equipment upgrades, however, the expansion should also provide support for cost-effective lighting, hot water, and other efficiency improvements even if they are not heating related. RCS programs are currently delivered on a whole-house basis and it would be wasteful and duplicative to create separate delivery mechanisms for heating efficiency and electric efficiency.

Our comments on the specific proposals are as follows. We have not yet received final documents from Western Massachusetts Electric Co, so their proposal is not included in these comments.

1. Program Content

The program administrators do not appear to be making significant changes to program design or delivery from what was originally planned for 2008. This is in accordance with DOER's request and DPU's guidance. However, we continue to hear reports of backlogs for residential customers seeking home energy audits, which are valuable in themselves, and are also prerequisites for some rebates and incentives. We expect program administrators to redouble their efforts with existing and new vendors to improve quickly the availability and delivery of home energy audits for this winter.

In the longer term, it is our expectation that the 2009 and (to a greater extent) 2010 – 2012 planning processes will result in more significant adjustments that improve program design and delivery.

We are aware that some companies have proposed changes to commercial as well as residential programs. Our initial focus for this winter is on helping residents manage record high heating fuel prices, and we agree that the focus of the DPU's recent order is on residential customers. We expect to see substantial expansion of the commercial and industrial programs in 2009, but do believe that the DPU can consider stop-gap proposals to address large unmet demand in cost-effective C&I programs. It is also important to note that some residential buildings, particularly multifamily housing, are treated through commercial efficiency programs because of the rate structure.

2. Electric program budgets

Electric company and municipal aggregator proposals appear to represent significant increases over 2008 budgets for residential and low income programs. The plans in total appear to amount to approximately a 30% increase over what would have been the spending rate for residential and low-income programs for the remainder of 2008.

3. Gas program budgets

Gas program proposals vary widely, and some appear to provide insignificant total increases, or increases in some areas offset by decreases in other areas that may not be warranted. In general it would be appropriate for gas company plans to increase at least as much as electric company plans, and for all residential programs that deliver cost-effective savings to be increased rather than decreased for this winter. DOER will continue to work with program administrators to ensure that residential efficiency programs are targeted at the homes and measures that deliver the greatest savings.

It is worth noting that some companies have proposed increases to commercial program budgets. This may be appropriate on a limited basis, given that some multifamily residences pay commercial rates and so may be treated under commercial programs. Program administrators should make clear what customers they are targeting with those increases.

It is also worth noting that, especially on the gas side, plans and plan formats have not been consistent across companies, across programs, or across years. DOER expects to work closely with gas companies, the DPU, program administrators and other stakeholders in the 2009 and 2010–2012 planning processes to standardize program planning and reporting.

4. Lost Base Revenues

Several companies have proposed to recover lost base revenues through various mechanisms. As noted in the D.P.U.'s decoupling order, D.P.U. 07-50-A, this recovery method is an important tool to help the Commonwealth meet the mandates of the Green Communities Act during the transition to full decoupling. However, it is also a significant departure from present practice, and merits thorough review by the Department of Public Utilities.

5. Performance Incentives

The Department should also consider the value and costs to customers of performance incentives in light of any requests for lost base revenues. Since spending levels are increasing, performance incentives may need to be adjusted proportionally to avoid inappropriate gains. Performance incentives are valuable tools for motivating utility companies to put their best efforts into efficiency programs. But the current incentive structure is rooted in the days when efficiency was a sideline imposed on utility companies. The 2008 expansions should be seen as the beginning of a new day where energy efficiency is a core business of the utilities, and the rewards of engaging in it on a larger scale might have to be adjusted accordingly.

In general, we strongly support the move to ramp up efficiency offerings to help customers save energy, especially in the context of record high prices. We hope the Department will be able to review these proposals for cost-effectiveness and approve final plans in time to provide relief for customers before winter falls.

Respectfully submitted,

/s/

Philip Giudice
Commissioner

PG: siv

cc: Benjamin Spruill, Hearing Officer
Service List